



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT OF THE DEPARTMENT OF EDUCATION**

**Made as Part of the Statewide Single Audit
of the Commonwealth of Kentucky**

For the Year Ended June 30, 2001

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
WWW.KYAUDITOR.NET**

**144 CAPITOL ANNEX
FRANKFORT, KY 40601
TELE. (502) 564-5841
FAX (502) 564-2912**

EXECUTIVE SUMMARY

Report of the Auditor of Public Accounts Audit of the Department of Education For the Year Ended June 30, 2001

BACKGROUND: The Federal Single Audit Act of 1984, subsequent amendments, and corresponding regulations, require the auditing of financial statements and the compliance and internal controls applicable to federal moneys received by the Commonwealth. To comply with these requirements, we audited internal controls and compliance at both the central and agency level. This summary is on our audit of one (1) organizational unit of the Commonwealth, the Department of Education.

The Department of Education provides, among other things, management and financial support for Kentucky's 176 school districts. Kentucky's finance system, called Support Education Excellence in Kentucky (SEEK), is designed to ensure that funds for education are distributed in a way that provides equal educational opportunities for all Kentucky children. This means districts in poor areas that produce less local tax revenue receive more state funds than districts in wealthier areas. In addition to the basic level of support, districts that choose to levy taxes above the minimum qualify for more state funds. The total SEEK budget for FY 2001 was \$2.209 billion, with the total State Education Budget being \$3.268 billion.

SUMMARY OF AUDITOR'S RESULTS:

Financial Statement Accounts

There were no findings related to the financial statements.

Schedule of Expenditures of Federal Awards

There were no findings related to the Schedule of Expenditure of Federal Awards.

CONTENTS

Page

INTRODUCTION

Introduction	2
Schedule of Expenditures of Federal Awards	2
Schedule of Findings and Questioned Costs	2
Summary Schedule of Prior Audit Findings	3
Audit Approach	3
List of Abbreviations/Acronyms Used in This Report.....	4

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Schedule of Expenditures of Federal Awards	8
Notes to the Schedule of Expenditures of Federal Awards.....	11

REPORTS ON COMPLIANCE AND ON INTERNAL CONTROL

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of the General-Purpose Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	18
Report on the Schedule of Expenditures of Federal Awards	20

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS	24
SECTION 2 - FINANCIAL STATEMENT FINDINGS	25
SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS.....	25

<u>SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS</u>	28
--	-----------

INTRODUCTION

**DEPARTMENT OF EDUCATION
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001**

Introduction

The Auditor of Public Accounts (APA), acting as principal auditor in conjunction with various certified public accounting firms, annually performs a statewide single audit of the Commonwealth of Kentucky. This audit allows the Commonwealth to comply with federal audit requirements as set forth in the Single Audit Act of 1984, as amended by Public Law 104-156, and the regulations contained in the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

Schedule of Expenditures of Federal Awards

This report contains the Schedule of Expenditures of Federal Awards for the Department of Education. The Notes to the Schedule of Expenditures of Federal Awards follow the schedule to provide more detailed information on certain aspects of the expenditures, such as the amount given to subrecipients.

Since not all state agencies use the Management Administrative Reporting System (MARS) Subsystems for Projects, the APA requested the Department of Education to prepare worksheets of federal financial assistance. The source of these worksheets included MARS, agency accounting systems, agency manual records, etc. The Department of Education was also asked to reconcile the worksheets to MARS and to federal grantor reports. These worksheets were compiled into the accompanying Schedule of Expenditures of Federal Awards.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs consists of three (3) sections:

- Summary of Auditor's Results,
- Financial Statement Findings, and
- Federal Award Findings and Questioned Costs.

The audit finding number and classification (as reportable, material, or other matter) are provided as part of the audit opinion summary. Major programs audited are listed on the Summary of Auditor's Results. The Financial Statement Findings list the audit findings related to the financial statements (required to be reported in accordance with *Government Auditing Standards*). The Federal Award Findings and Questioned Costs lists all findings related to federal awards. Generally, the state agency, CFDA number and program, federal agency, pass-through agency, and the compliance area to which the finding relates are presented. In both reports, reportable conditions and reportable instances of noncompliance are presented first, then material weaknesses and material instances of noncompliances, followed by other matters.

**DEPARTMENT OF EDUCATION
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Schedule of Findings and Questioned Costs (Continued)

There are not any findings or questioned costs to report based on our audit procedures for fiscal year ended June 30, 2001.

Summary Schedule of Prior Audit Findings

Audit findings reported in the Schedule of Findings and Questioned Costs for the fiscal year ended June 30, 2000, as well as any previous findings which have not been resolved, are reported the Schedule of Prior Audit Findings for the fiscal year ended June 30, 2001. If the APA determines the agency's Summary Schedule of Prior Audit Findings materially misrepresents the status of any prior audit finding, a new audit finding is issued and reported in the Schedule of Findings and Questioned Costs.

The Summary Schedule of Prior Audit Findings is organized based on whether the prior year finding was reportable, material, or other matter. The findings of each classification are categorized as (1) fully corrected, (2) not corrected or partially corrected, (3) corrective action taken differs significantly from corrective action previously reported, or (4) finding no longer valid or does not warrant further action.

Audit Approach

Our audit was conducted in accordance with the Single Audit Act Amendments of 1996, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, *Government Auditing Standards* (also referred to as the Yellow Book), and auditing standards generally accepted in the United States of America. The scope of the statewide single audit for the year ended June 30, 2001 included:

- An audit of the general-purpose financial statements and required supplementary schedules in accordance with auditing standards generally accepted in the United States of America;
- An audit of supplementary Schedule of Expenditures of Federal Awards in accordance with auditing standards generally accepted in the United States of America; and
- An audit of the internal control applicable to the Department of Education, to the extent necessary to consider and test the internal accounting and administrative control systems as required.

The APA conducted the audit of internal controls, focusing on the following objective:

- Considering the internal control in order to determine auditing procedures on the general-purpose financial statements of the Commonwealth.

**DEPARTMENT OF EDUCATION
INTRODUCTION
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

List of Abbreviations/Acronyms Used in This Report

APA	Auditor of Public Accounts
CFDA	Catalog of Federal Domestic Assistance
Commonwealth	Commonwealth of Kentucky
FY	Fiscal Year
HIV	Human Immunodeficiency Virus
KDE	Kentucky Department of Education
KRS	Kentucky Revised Statutes
MARS	Management Administrative Reporting System
NA	Not Applicable
OMB	Office of Management and Budget
SEEK	Support Education Excellence in Kentucky
U.S.	United States

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor CFDA #/ Program Title	Expenditures	
	Cash	Noncash
<u>U.S. Department of Agriculture</u>		
Direct Programs:		
10.553 School Breakfast Program (Note 2) (Note 3)	\$29,139,132	
10.555 National School Lunch Program (Note 2) (Note 3)	90,439,485	
10.556 Special Milk Program for Children (Note 2) (Note 3)	87,732	
10.558 Child and Adult Care Food Program (Note 2) (Note 3)	23,727,070	
10.559 Summer Food Services Program for Children (Note 2) (Note 3)	3,065,808	
10.560 State Administrative Expenses for Child Nutrition	1,700,038	
<u>U.S. Department of Defense</u>		
Direct Program:		
NA Teacher and Teacher's Aide Placement Assistance Program (Note 4)		
<u>U.S. Department of Labor</u>		
Passed Through From Cabinet For Workforce Development		
17.250 Job Training Partnership Act (Note 3)	575,561	
<u>U.S. Appalachian Regional Commission</u>		
Direct Programs:		
23.001 Appalachian Regional Development (Note 4)		
<u>U.S. Department of Education</u>		
Direct Programs:		
84.010 Title I Grants to Local Educational Agencies (Note 2) (Note 3)	127,815,102	
84.011 Migrant Education - Basic State Grant Program (Note 3)	10,018,062	
84.013 Title I Program for Neglected and Delinquent Children (Note 3)	6,696	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor CFDA #/ Program Title	Expenditures	
	Cash	Noncash
<u>U.S. Department of Education (Continued)</u>		
Direct Programs (Continued):		
84.023 Special Education - Innovation and Development (Note 3)	\$94,885	
84.025 Services for Children With Deaf-Blindness (Note 4)		
84.027 Special Education -Grants to States (Note 2) (Note 3)	59,922,124	
84.162 Immigrant Education (Note 3)	572,644	
84.173 Special Education - Preschool Grants (Note 2) (Note 3)	8,964,427	
84.185 Byrd Honors Scholarships (Note 3)	540,389	
84.186 Safe and Drug-Free Schools and Communities - State Grants (Note 3)	4,567,225	
84.194 Bilingual Education Support Services (Note 3)	15,569	
84.196 Education for Homeless Children and Youth (Note 3)	508,058	
84.213 Even Start -State Educational Agencies (Note 3)	2,291,709	
84.215 Fund for the Improvement of Education (Note 3)	135,350	
84.216 Capital Expenses (Note 3)	356,075	
84.276 Goals 2000 - State and Local Education Systemic Improvement Grants (Note 3)	6,091,027	
84.281 Eisenhower Professional Development State Grants (Note 3)	3,748,414	
84.293 Foreign Language Assistance (Note 3)	51,048	
84.298 Innovative Education Program Strategies (Note 3)	4,274,530	
84.314 Even Start-Statewide Family Literacy Program	4,256	
84.318 Technology Literacy Challenge Fund Grants (Note 3)	5,521,872	
84.323 Special Education-State Program Improvement Grants for Children With Disabilities (Note 3)	814,494	
84.326 Special Education- Technical Assistance and Dissemination to Improve Services and Results for Children With Disabilities (Note 3)	105,762	
84.327 Special Education - Technology and Media Services for Individuals With Disabilities (Note 3)	221,060	
84.330 Advanced Placement Incentive Program (Note 3)	204,202	
84.332 Comprehensive School Reform Demonstration (Note 3)	2,168,048	
84.338 Reading Excellence (Note 3)	2,746,837	
84.340 Class Size Reduction (Note 3)	13,690,487	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**DEPARTMENT OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FEDERAL ASSISTANCE PROGRAMS
FOR THE YEAR ENDED JUNE 30, 2001**

Federal Grantor CFDA #/ Program Title	Expenditures	
	Cash	Noncash
Passed Through From Cabinet for Health Services:		
84.181 Special Education - Grants for Infants and Families with Disabilities (Note 3)	\$ 60,399	
Passed Through From Cabinet for Workforce Development		
84.048 Vocational Education - Basic Grants to States (Note 2) (Note 3)	6,808,826	
84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States (Note 2) (Note 3)	14,443	
84.243 Tech - Prep Education	9,592	
<u>U.S. Department of Health and Human Services</u>		
Direct Programs:		
93.576 Refugee and Entrant Assistance – Discretionary Grants (Note 3)	313,688	
93.600 Head Start (Note 3)	36,730	
93.938 Cooperative Agreements to Support Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems (Note 3)	228,455	
Passed Through From Cabinet for Health Services:		
93.945 Assistance Programs for Chronic Disease Prevention and Control (Note 3)	538,779	
<u>U.S. Corporation for National and Community Service</u>		
Direct Program:		
94.004 Learn and Serve America - School and Community Based Programs (Note 3)	318,902	
Total Department of Education	<u>\$ 412,514,992</u>	

See accompanying Notes to the Schedule of Expenditures of Federal Awards

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001**

Note 1 - Purpose of the Schedule and Significant Accounting Policies

Purpose of the Schedule - OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing each federal financial assistance program as identified in the *Catalog of Federal Domestic Assistance*.

Basis of Presentation - The accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133. As defined in the Circular, federal financial assistance “. . . means assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other assistance, but does not include amounts received as reimbursement for services rendered to individual. . .” It includes awards received directly from federal agencies, or indirectly through other units of state and local governments.” Accordingly, the accompanying schedule includes the cash federal financial assistance programs; the Department of Education had no noncash federal financial assistance for the year ended June 30, 2001. Those programs that have not been assigned a catalog number, or for which the catalog number was not available, have been shown either at the bottom of the relevant federal grantor subheading or under the “Other Federal Assistance” subheading.

Reporting Entity - The accompanying schedule includes all federal financial assistance programs administered by the Department of Education. The Department of Education is an organizational unit of the Commonwealth of Kentucky as defined by KRS 12.010 and is included in the Commonwealth entity for financial reporting purposes.

Basis of Accounting - The cash expenditures on the accompanying schedule are presented primarily on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed.

KRS 45.229 provides that the Finance and Administration Cabinet may, “. . . for a period of thirty (30) days after the close of any fiscal year, draw warrants against the available balances of appropriations made for that fiscal year, for the payment of expenditures incurred during that year or in fulfillment of contracts properly made during the year, but for no other purpose.” However, there is an exception to the application of KRS 45.229 in that regular payroll expenses incurred during the last pay period of the fiscal year are charged to the next year.

The Commonwealth’s general-purpose financial statements are presented on the modified accrual or accrual basis of accounting, depending on fund type. Therefore, the Schedule of Expenditures of Federal Awards may not be directly traceable to the general-purpose financial statements in all cases.

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 1 - Purpose of the Schedule and Significant Accounting Policies (Continued)

Inter-Agency Activity - Certain transactions relating to federal financial assistance may appear in the records of more than one (1) state agency. To avoid the overstatement of federal expenditures, the following policies were adopted for the presentation of the Department of Education's Schedule of Expenditures of Federal Awards:

- (a) Federal moneys may be received by one (1) state agency (primary state agency - recipient) and passed through to another state agency (secondary state agency - subrecipient) where the moneys are expended. Except for pass-throughs to state universities as discussed below, this inter-agency transfer activity is reported in the schedule as follows:
- Under the primary state agency, the federal program is reported as a direct program. However, the transfer of money to the secondary state agency is not included in the primary state agency's expenditures.
 - Under the secondary state agency, the federal program is reported as a pass-through program. The expenditure of the transferred moneys is reported in the secondary agency's expenditures.

Because the schedule excludes federal financial assistance related to state universities, when a state agency passes federal money to a state university, this is reported in the schedule as an expenditure of that state agency.

- (b) Federal moneys received by the Department of Education and used to purchase goods or services from another state agency are reported in the schedule as an expenditure.

Note 2 - Type A Programs

Under the provisions of OMB Circular A-133, a Type A program for the Commonwealth means any program for which total expenditures of federal awards exceeded \$15 million for FY 01. Clusters are a group of closely related programs sharing common compliance requirements. A cluster of programs shall be considered as one (1) program for determining Type A programs.

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 2 - Type A Programs (Continued)

The Department of Education had the following cash programs that met the Type A program definition for the year ended June 30, 2001, some of which were administered by more than one (1) state agency. The Department of Education identified two (2) clusters, which included more than one (1) federal program, among the Type A programs. These Type A programs and clusters were:

CFDA #	Program Title	Expenditures
10.553	School Breakfast Program	\$ 29,139,132 a
10.555	National School Lunch Program	90,439,485 a
10.556	Special Milk Program for Children	87,732 a
10.558	Child and Adult Care Food Program	23,727,070
10.559	Summer Food Service Program for Children	3,065,808 a
84.010	Title I Grants to Local Educational Agencies	127,815,102
84.027	Special Education - Grants to States	59,922,124 b
84.048	Vocational Education - Basic Grants to States	6,808,826 c
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	14,443 c
84.173	Special Education - Preschool Grants	8,964,427 b
Total Type A Programs		<u>\$349,984,149</u>

Identified clusters include:

a - Child Nutrition Cluster

b - Special Education Cluster

c - Passed Through from Cabinet for Workforce Development

Note 3 - Subrecipient Activity

A subrecipient is a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program. The following list summarizes the amount of federal funds sent to subrecipients.

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 3 - Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Amount Sent
10.553	School Breakfast Program	\$ 29,071,256
10.555	National School Lunch Program	90,296,307
10.556	Special Milk Program for Children	87,732
10.558	Child and Adult Care Food Program	23,484,389
10.559	Summer Food Service Program for Children	2,991,048
17.250	Job Training Partnership Act	563,102
84.010	Title I Grants to Local Educational Agencies	126,311,971
84.011	Migrant Education - Basic State Grant Program	9,856,481
84.023	Special Education - Innovation and Development	94,628
84.027	Special Education - Grants to States	57,091,900
84.048	Vocational Education - Basic Grants to States	6,476,142
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States	14,443
84.162	Immigrant Education	569,798
84.173	Special Education - Preschool Grants	8,520,636
84.181	Special Education - Grants for Infants and Families with Disabilities	60,399
84.185	Byrd Honors Scholarships	531,000
84.186	Safe and Drug-Free Schools and Communities - State Grants	4,221,834
84.194	Bilingual Education Support Services	1,500
84.196	Education for Homeless Children and Youth	481,653
84.213	Even Start - State Educational Agencies	2,045,200
84.215	Fund for the Improvement of Education	75,334
84.216	Capital Expenses	356,075
84.232	Advanced Placement Incentive Program	737,861
84.276	Goals 2001 - State and Local Education Systemic Improvement Grants	5,415,929
84.281	Eisenhower Professional Development State Grants	3,594,207
84.293	Foreign Languages Assistance	20,204
84.298	Innovative Education Program Strategies	4,013,804
84.318	Technology Literacy Challenge Fund Grants	5,135,460
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	61,635

**DEPARTMENT OF EDUCATION
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

Note 3 - Subrecipient Activity (Continued)

CFDA #	Federal Program Name	Amount Sent
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results for Children with Disabilities	\$ 105,762
84.327	Special Education - Technology and Media Services for Individuals with Disabilities	221,060
84.330	Advanced Placement Incentive Program	20,924
84.332	Comprehensive School Reform Demonstration	2,021,600
84.338	Reading Excellence	2,720,117
84.340	Class Size Reduction	13,690,487
93.576	Refugee and Entrant Assistance Discretionary Grants	307,769
93.938	Cooperative Agreement to Support Comprehensive School Agreements Health Programs to Prevent the Spread of HIV and Other Important Health Problems	95,240
93.945	Assistance Programs for Chronic Disease Prevention and Control	406,388
94.004	Learn and Serve America - School and Community Based Programs	294,889
Total Amount Sent to Subrecipients		<u>\$ 402,066,164</u>

Note 4 - Zero Expenditure Programs

These programs had no expenditures during FY 01. They included programs with no activity during the year, such as old programs not officially closed out or new programs issued late in the fiscal year. They also included programs with activity other than expenditures.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL

AND

REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of the General-Purpose Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the People of Kentucky
Honorable Paul E. Patton, Governor
Marlene M. Helm, Secretary
Education, Arts and Humanities Cabinet
Gene Wilhoit, Commissioner
Department of Education

As part of the audit of the general-purpose financial statements of the Commonwealth of Kentucky as of and for the year ended June 30, 2001, we have audited expenditures for the Support Education Excellence in Kentucky (SEEK) program, federal fund accounts payable and accounts receivable of the Department of Education, an organizational unit of the Commonwealth as defined by KRS 12.010, and have issued our report thereon dated December 21, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Commonwealth's financial statements are free of material misstatement, we performed tests of the Department of Education's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Report on Compliance and on Internal Control Over Financial Reporting
Based on an Audit of The General-Purpose Financial Statements
Performed in Accordance with *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Department of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 21, 2001



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

Report on the Schedule of Expenditures of Federal Awards

To the People of Kentucky
Honorable Paul E. Patton, Governor
Marlene M. Helm, Secretary
Education, Arts and Humanities Cabinet
Gene Wilhoit, Commissioner
Department of Education

We have audited the general-purpose financial statements of Commonwealth as of and for the year ended June 30, 2001, and have issued a report thereon dated December 21, 2001. Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements taken as a whole. The accompanying schedule of expenditures of federal awards of the Department of Education is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the general-purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements taken as a whole.

The Commonwealth's general-purpose financial statements are prepared on an accrual/modified accrual basis of accounting. However, the schedule of expenditures of federal awards of the Department of Education is prepared on the basis of cash disbursements as modified by the application of KRS 45.229. Consequently, certain expenditures are recorded in the accounts only when cash is disbursed. Accordingly, the schedule of expenditures of federal awards is not intended to present the expenditures of federal awards in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the effect of the application of a different basis of accounting as explained above, the schedule of expenditures of federal awards of the Department of Education is fairly stated, in all material respects, in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Report on the Schedule of Expenditures of Federal Awards
(Continued)

This report is intended solely for the information and use of management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

December 21, 2001

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001**

SECTION 1 - SUMMARY OF AUDITOR'S RESULTS

Financial Statement Accounts

Financial Statement Accounts: We issued an unqualified opinion on the Commonwealth's general-purpose financial statements, which included the Department of Education, as of and for the year ended June 30, 2001.

Internal Control Over Financial Reporting: Our consideration of the Department of Education's internal control over financial reporting disclosed no reportable conditions.

Compliance: The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Schedule of Expenditures of Federal Awards

Schedule of Expenditures of Federal Awards: We issued a qualified opinion on the Department of Education's Schedule of Expenditures of Federal Awards because the schedule was presented on a basis of accounting that was not in conformance with accounting principles generally accepted in the United States of America as described in Note 1 of the schedule. The opinion was issued in relation to the Commonwealth's general-purpose financial statements taken as a whole.

Identification of Major Programs Audited

OMB Circular A-133 defines a major program as "a Federal program determined by the auditor to be a major program in accordance with section __.520 or a program identified as a major program by the Federal awarding agency or pass-through entity in accordance with section __.215(c)." Section __.520 states, "[t]he auditor shall use a risk-based approach to determine which Federal programs are major programs." Based on our risk assessments, no Federal programs at the Department of Education were determined to be a major program.

Dollar Threshold Used to Distinguish Between Type A and Type B Programs

The maximum dollar threshold used to distinguish between Type A and Type B Programs was \$15,000,000.

Auditee Risk

The Commonwealth did not qualify as a low-risk auditee.

**DEPARTMENT OF EDUCATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2001
(CONTINUED)**

SECTION 2 - FINANCIAL STATEMENT FINDINGS

There were no findings for this section.

SECTION 3 - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Applying the risk based approach, there were no federal programs audited as major programs at the Department of Education for FY 01.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

**DEPARTMENT OF EDUCATION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2001**

Fiscal Year	Finding Number	Finding	CFDA Number	Questioned Costs	Comments
------------------------	-----------------------	----------------	------------------------	-----------------------------	-----------------

Reportable Conditions

There were no findings for this section.

Material Weaknesses/Noncompliances

There were no findings for this section.

Other Matters

(1) Audit findings that have been fully corrected:

FY 00	00-KDE-1	The Department Of Education Should Reconcile To The Management Administrative Reporting System (MARS) To Ensure Accurate And Complete Reporting Of Federal Monies	various	\$0	This comment has been resolved.
-------	----------	---	---------	-----	------------------------------------

(2) Audit findings not corrected or partially corrected:

There were no findings for this section.

(3) Corrective action taken is significantly different from corrective action previously reported:

There were no findings for this section.

(4) Audit finding is no longer valid or does not warrant further action:

There were no findings for this section.